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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	**CC Docket No. 96-[illegible]**
Access Charge Reform	)	

COMMENTS OF SPRINT CORPORATION

SPRINT CORPORATION

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TABLE OF CONTENTS

SUMMARY

Both the level and structure of interstate access charges are in serious need of reform. The current interstate access charges harm IXCs and their customers by making the costs of long distance service far higher than should be the case. With the advent of local competition, the current access charge regime also subjects the ILECs to a serious business risk: a huge percentage of their access revenues would be lost if new entrants divert a relative handful of existing customers. And to the extent that today's above-cost access charges have been used to help keep local rates below a cost-based level, the present structure harms CLECs as well: as long as they must compete with ILECs that charge below-cost rates for local service, the CLECs can profitably serve only those customers that generate substantially above-average toll usage.

The departure from costs in today's pricing scheme has uneconomic consequences that distort consumers' choices as to what products they purchase and in what quantities. This harm is magnified by the fact that the most price-elastic services are burdened with the subsidy requirement to support services that are price-inelastic. While the societal harm from this distortion may not be readily measurable, in a market as large as this there can be no question that the harm is significant. The Telecommunications Act of 1996 recognizes the economic inefficiency of the existing system of cross-subsidies. It requires their elimination and requires that in the future, all subsidies must be explicit. Thus, reform of the status quo is not only necessary as a matter of economic efficiency, but also is a mandate of Congress.

The Commission has already recognized this in its landmark Interconnection Order, where it found that access charges should converge with the TELRIC-based charges for transport and termination of an interconnected local call. In order to achieve this end, Sprint proposes a combination of rate structure reform and a transition to TELRIC-based rates, including:

- Immediately transfer all carrier common line and non-traffic sensitive switching costs to the Subscriber Charge.
- Require all the price cap ILECs to submit TELRIC cost studies, and to transition their usage-sensitive switching charges and transport charges to TELRIC levels within five years.
- Apply the annual price cap productivity factor against the TIC until it is reduced to zero. In the meantime, the TIC should not be assessed in cases where the transport is provided by an alternative access vendor.
- Any increase in explicit universal service funds received by an ILEC should be offset dollar for dollar by reductions in the TIC and in the difference between current and TELRIC-based rates for usage-sensitive switching and local transport

These steps would immediately reduce the level of interstate access charges by nearly one-half, would place only a modest additional burden (but one that is economically justified) on end-users, and would give the ILECs a brief period of time to adjust to a new legal and competitive environment and to manage their remaining above-cost charges down to a forward-looking cost-based level. On the whole, end users will substantially benefit from the offsetting reductions in toll charges that can be expected to result from the restructuring and reduction of interstate access charges. There would be some increase in overall costs for end users who make few toll calls. However, for those consumers who are in genuine need --

either because of low income levels or because they live in high-cost areas -- the Commission's universal service reform, being examined in CC Docket No. 96-45, should provide a safety net.

Sprint believes it is unclear whether local competition will result in comprehensive movement of interstate access charges to forward-looking costs within the next several years. Thus, the Commission should not rely on a "market-based" approach to ensure cost-based access charges. Although Sprint supports the lessening of restraints on ILEC pricing of access as competition develops, the Phase One reforms proposed in the NPRM give the ILECs too much, too soon. In particular, the volume/term discounts and individual customer pricing authority proposed for Phase One could allow ILECs to take targeted actions that would substantially impede the development of local competition. Such flexibility could also give the RBOCs the ability to fashion favorable rates for their long distance operations that no other IXC could take advantage of. Indeed, in order to preclude such self-dealing, the Commission should adopt a bright-line test for the RBOCs: any access rates offered to their own long distance operations should be made available, without restriction, to any other IXC.

Sprint also believes it is premature, given the scant local competition that exists today, to attempt to arrive at triggers for Phase Two of a market based approach, or to decide the Phase Two relief that should be granted. Instead, the Commission should closely monitor the development of local competition and be prepared to act quickly to initiate further access charge reforms when the level of competition so warrants.

The Commission must also bear in mind the disadvantage other IXCs would suffer if the RBOCs were allowed into the long distance market in-region before access charges are

reduced to TELRIC-based levels. Although much of this disadvantage would be eliminated through cost-based recovery of loop and non-traffic sensitive local switching charges, the RBOCs would still maintain a substantial advantage over IXCs with respect to other elements of access charges, since they would be imposing on their rivals costs that are higher than the true internal costs they themselves face. Thus, RBOC entry should not be allowed until their access charges have been reduced to TELRIC levels. However, the RBOCs should be free to accelerate their transition to cost-based access charges if they wish to enter before any Commission-prescribed transition period has ended.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	**CC Docket No. 96-262**
Access Charge Reform	)	

COMMENTS OF SPRINT CORPORATION

Sprint Corporation hereby submits its comments in response to the Notice of Proposed Rulemaking released in the above-captioned docket on December 24, 1996 (FCC 96-488).

I. INTRODUCTION AND OVERVIEW OF SPRINT'S POSITION

In its landmark Interconnection decision of six months ago,[1] the Commission recognized that the forward-looking steps taken in that decision to open the local market to competition were only one part of a trilogy, and that universal service reform and access reform must also be completed in order to adjust the regulatory framework to promote competition in all telecommunications markets. With the consideration of universal service reform underway in CC Docket No. 96-45, the issuance of the NPRM herein initiates the third leg of the contemplated triad. Although Sprint recognizes that the Commission is well aware of the close interrelationships between these proceedings, it will be helpful to briefly set forth Sprint's own views on the relationship between these three proceedings, in order to place its subsequent comments in the proper context.

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[1] Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, First Report and Order released August 8, 1996 (FCC 96-325) (hereafter, "Interconnection Order"), review pending sub nom. Iowa Utilities Board, et al. v. FCC, 8th Cir. No. 96-3321 et al.

Sprint views the Interconnection decision as laying the economic foundation for access reform. There, the Commission determined (inter alia) that rates for transport and termination of interconnected local calls should reflect only traffic-sensitive costs, and that those costs should be measured by a forward-looking long run incremental cost methodology (with an appropriate allowance for shared common costs).[2] The resulting charges for transport and termination are far lower than existing interstate access charges -- on the order of one-fourth the current level of access charges. The Commission (id., ¶1033) recognized -- correctly, in Sprint's view -- that

> transport and termination of traffic, whether it originates locally or from a distant exchange, involves the same network functions. Ultimately, we believe that the rates that local carriers impose for the transport and termination of local traffic and for the transport and termination of long distance traffic should converge.

The high level of access charges prevailing today places an enormous burden on IXCs and their customers, and as discussed below, it also places enormous business risks on ILECs from facilities-based competitors or competitors that purchase unbundled network elements. As the Commission recently recognized, access charges continue to represent more than 40% of the cost of an interstate call.[3] Artificially high costs for access result in toll charges that are much higher than they need to be, which tax the vast majority of consumers that use toll service and artificially depress demand for such services. Continuation of above-cost access charges is also incompatible with RBOC in-region long distance entry. If RBOCs were

[2] Interconnection Order, ¶¶1027-1118.

[3] Jim Lande, Industry Analysis Division, Common Carrier Bureau, "Telecommunications Industry Revenue: TRS Fund Worksheet Data," December 1996 at 9.

allowed to enter the long distance market at a time when they charge their long distance competitors several times the costs that they themselves face in providing access, the Commission would be giving the RBOCs an enormous cost advantage in the long distance market -- an advantage that can hardly be squared with any reasonable concept of the public interest. If the RBOCs were allowed into the long distance market in-region under these circumstances, the weakening of their long distance competitors would forestall the most likely source of vigorous competition in the local market: entry by the 500 long distance carriers, facilities-based and resellers alike. Thus, continuation of the access charge status quo could preclude meaningful local entry and impair the vigor of long distance competition that has emerged during the last two decades.

In a competitive local environment, uneconomic recovery of access charges also creates serious business risks for ILECs. For example, ten percent of the Sprint LECs' residential and business access lines account for 38% (residential) and 62% (business) of carrier common line revenues.[4] And just 0.7% of the Sprint LECs' business customers generate 24.1% of business CCLC revenues. Those are the very first customers that will be targeted by long distance carriers entering the local market, because of the significant savings long distance carriers would achieve in access costs by providing local service to those customers.

The Universal Service Reform docket, in Sprint's view, should be used to define the efficient costs of providing local service, establish an affordability benchmark, and create a competitively neutral funding mechanism to cover the difference between the affordability

[4] See Exhibit 1.

benchmark and the efficient costs of providing local phone service in high cost areas, and to enable low income consumers to be connected to the network. With this competitively neutral funding of universal service, there should no longer be any need for implicit subsidies, such as above-cost access charges, to maintain the affordability of local service. On the contrary, Section 254 prohibits the financing of universal service through hidden subsidies, such as those now embedded in access charges, and instead requires that universal service funding be explicit and competitively neutral.

Part and parcel of both access reform and universal service reform is the need to allow ILECs to rebalance their rates in response to the new statutory framework and the prospective emergence of local competition. Until now, local residential services have been priced on the basis of residual ratemaking, rather than costs. ILECs were expected to use other sources of revenue -- above-cost interstate and intrastate access charges, revenues from above-cost intraLATA toll charges, and above-cost charges for optional service features (such as call waiting, call forwarding and caller ID) and local business services -- in order to keep residential rates at an artificially low level. The Commission and the state regulatory authorities must recognize that this past approach to ratemaking for local service -- particularly local residential service -- is simply unsustainable, both as a matter of economics (to the extent local competition develops) and as a matter of law (given the strictures against implicit subsidies in §254 and the prohibition against state-imposed barriers to entry in §253).

Current state policies have resulted in rates -- particularly for smaller ILECs whose costs may be higher than those of the RBOCs -- that are manifestly too low. For example, the Sprint LECs' overall average monthly rate for residential service is $11.85 . In New Jersey, it

is only $ 7.80. No one can seriously contend that these rates cover the full cost of local service. It is economically irrational to maintain local rates at such an artificially low level. Furthermore, maintenance of such rates will discourage competitive local entry (contrary to §253 of the Act). It is far from clear that a resale-only strategy is economically viable in the local market. Yet, with basic local rates set below costs, a CLEC can afford to purchase unbundled elements or provision its own facilities only to customers that generate enough above-cost access charges to compensate for the below-cost rate for local service the CLEC would have to charge in order meet the ILEC's local rate. Below-cost pricing of local service precludes a CLEC from pursuing a facilities-based or unbundled elements strategy for consumers having average or below-average toll usage. Thus, below-cost pricing of local service substantially restricts the portion of the local market that can be served profitably by CLECs.

Although the intent to make local service "affordable" may have been laudable, it also may have been misguided as a matter of economics. Basic access to the network -- local service -- is almost perfectly price-inelastic -- i.e., consumers will not drop off the network to any significant degree in the face of a price increase.[5] By contrast, the price elasticity for interLATA toll calls is far greater: .72-.80 (id.), and the price elasticity of various optional services ranges from .49 (automatic call return) to 1.39 (call forwarding) (id.). Pricing toll services and optional services, that are relatively price-elastic, far above costs in order to cross-subsidize basic local service, which is almost perfectly price-inelastic, is economically absurd: it merely acts to significantly suppress demand for these other services (id. at 3).

[5] The estimates of price elasticity range from 0.03 to 0.05. See Exhibit 2, p.2.

Obviously, consumers who simply cannot afford to pay the costs of their connection to the network, either because of their low income or because they live in high-cost areas, must be taken care of. Sprint expects that the Commission's universal service plan will provide a safety net for such persons. Nonetheless, it is interesting to note that even very low income households spend almost as much on these various other services as households with far greater income. For example, the average overall monthly expenditure on both local and long distance services for households with income under $10,000 annually is $45.40, which is 88% of the $51.90 spent by households with incomes in the $40-50,000 range (id., p.4). Fully 34.3% of households with income of less than $10,000 per year subscribe to at least one vertical feature, such as call waiting and call forwarding (id. at 8). Indeed, the total LEC bill for such households ($29.21 per month) is only 11% below the average local phone bill of households with incomes of $50-75,000 (id. at 5), and the very low income households spend an average of $16.17 on non-LEC long distance calls each month, an amount equal to 80% of the expenditures of households in the $40-50,000 income range (id. at 6).

The clear implication of these data is that rate rebalancing should not be considered a dirty word. Consumers -- even very low income consumers -- value their communications services, and their spending patterns on toll service and optional features suggest that they can afford a price for their connection to the network that is substantially closer to costs than the prices they are paying today. Furthermore, a combination of access reform, local competition, and rate rebalancing is not likely to result in substantial harm to consumers, or even in a substantial increase in their total communications expenditures for the large majority of households. Local competition is likely to drive down rates for optional service features,

and experience in the long distance industry demonstrates that decreases in access charges will be more than offset, dollar for dollar, in lower long distance rates to the public.[6] Thus, the typical consumer will see substantial reductions in charges for toll calls and optional service features, that may largely offset -- or even more than offset -- any increase in basic monthly local rates that may occur. It is only those consumers who subscribe to no optional features and who seldom make toll calls that will see an appreciable rise in their monthly communications bill. However, there is no reason why such consumers should not be charged the full cost of connecting them to the network (unless, either because of income level or because they live in high cost rural areas, they qualify for universal service support).

As indicated above, Sprint agrees with the Commission's determination in its Interconnection Order that ultimately, interstate access charges should be based on the same TELRIC standard as charges for transport and termination of local interconnected calls. The difficult question is how to get from here to there.

The Commission's universal service reform efforts may take the place of much of the implicit subsidy that now exists in interstate access charges. Any ILEC that receives an increase in universal support payments above current USF funding should be required to offset that increase, dollar for dollar, through decreases in interstate access charges.

To the extent above-cost access charges remain, Sprint proposes several steps in these comments that will place interstate access charges on a sounder economic footing and will

[6] See Lande, supra, at 9, showing continuing decreases in long distance rates net of access costs.

result, within a reasonable period of time, in the desired end: TELRIC-based access charges. In brief, these steps include:

- Immediately transfer all carrier common line and non-traffic sensitive switching costs to the Subscriber Charge.
- Require all the price cap ILECs to submit TELRIC cost studies, and to transition their usage-sensitive switching charges and transport charges to TELRIC levels within five years.
- Apply the annual price cap productivity factor against the TIC until it is reduced to zero. In the meantime, the TIC should not be assessed in cases where the transport is provided by an alternative access vendor.
- Any increase in explicit universal service funds received by an ILEC should be offset dollar for dollar by reductions in the TIC and in the difference between current and TELRIC-based rates for usage-sensitive switching and local transport.

These steps will immediately reduce the interstate access charges currently paid by IXCs by roughly one-half, will place only a modest additional (but economically justified) burden on end users -- a burden that in many cases will be offset largely or completely by lower toll charges -- and will give the ILECs a brief period of time to adjust to a new legal and competitive environment and to manage their remaining above-cost charges down to a forward-looking cost-based level.

These steps will also pave the way for similar reforms by the states. However, if the states do not follow the Commission's lead, the Commission must be prepared to act, pursuant to §§253 and 254, to override the state policies that result in continued implicit subsidies and undue barriers to entry.

II. ACCESS REFORM FOR INCUMBENT LOCAL EXCHANGE CARRIERS (¶¶50-54)

Sprint does not object to limiting the scope of this proceeding, with the exceptions discussed in ¶53, to incumbent LECs subject to price cap regulation.

The Commission also seeks comment (¶54) on its tentative conclusion that purchasers of unbundled network elements should not be required to pay Part 69 access charges. Sprint thought this question was already resolved, in ¶725 of the Interconnection Order, by putting a sunset date on the transitional imposition of the CCLC and 75% of the TIC until no later than June 30, 1997. In general, Sprint believes that so long as CLECs are paying the full, forward-looking costs of the facilities they purchase, imposing any access charges on top of these costs for more than a short transitional period would simply be a windfall to the ILECs,[7] a disincentive for them to cooperate with efforts to reform access charges, and a substantial barrier to the development of local competition.

At the same time, the Commission must realize that if local entry through purchase of unbundled network elements takes hold on a significant scale, substantial access revenues of ILECs -- revenues which have been used to support universal service by reducing the amounts charged to end users for local services -- are in jeopardy, if the current above-cost rate

[7] To the extent local service is priced below costs, the ILEC will be receiving more from the sale of unbundled elements needed by a CLEC to serve a particular customer than it receives in basic local service rates from that customer. Giving the ILEC the access charges it now receives from serving that customer -- at least a portion of which is now used to subsidize below-cost rates -- on top of cost based charges for unbundled elements would clearly result in double-recovery by the ILEC. For example, if an ILEC's loop cost (and unbundled loop charge) is $30, and it now recovers half that amount from local service rates and the other half from access charges, allowing the ILEC to receive access charges, on top of unbundled network element rates, would give it $45 -- 50% more than it receives when it serves the customer itself.

structure continues in place. As discussed in Section I, the ILECs' loss of a relative handful of customers would cause a serious shortfall in revenues ILECs have used in the past to support universal service. In order to forestall the serious impact this revenue diversion would have on ILECs, the Commission and state regulators must engage in simultaneous cost-causative recovery of non-traffic-sensitive costs and rate rebalancing of charges to the retail end user customers as well. Without such simultaneous rate rebalancing, or a universal service funding plan that fully compensates ILECs for the universal service contributions now embedded in interstate access charges, the ILECs will be unfairly subjected to serious revenue shortfalls.

III. RATE STRUCTURE MODIFICATIONS (¶¶55-139)

B. Common Line (¶¶57-70)

In the NPRM (¶¶57-58), the Commission correctly recognizes that loop costs are not traffic-sensitive and that the current rate structure, which recovers a portion of loop costs from IXCs through a per-minute of use charge (the CCLC), is an economically unsound method of recovery that causes inefficient use of the network and uneconomic bypass.

The haphazard relationship between the carrier common line charge and loop cost recovery can be illustrated by looking at the common line revenues produced by four real-world customers of one of the Sprint LECs. See Exhibit 3. Customer A, located in the heart of a small city, has relatively low loop costs (as measured by the Benchmark Cost Model), but generates, through a combination of the subscriber line charge (SLC) and interstate and intrastate CCLCs, total common line revenue of $41.68, more than four times its loop cost. A residential customer in a more remote location (customer B) makes virtually no toll calls and generates only $3.68 of common line revenues for the LEC, while its monthly loop costs are

$100.38. Another residential customer (customer C) makes a substantial number of intrastate toll calls and generates $66.39 in common line revenues, more than triple the loop costs of $18.77. Note that these common line revenues do not include the allocation of any portion of the customers' monthly local service rates to the loop. As shown in Exhibit 1, Sprint has residential customers whose heavy toll usage generates carrier common line revenues on the order of $150 per month. These customers are paying dearly for their loops through far higher charges for toll calls than would be the case if the loop costs were not recovered in part through the CCLC. At the same time, roughly 2.5% of Sprint's local residential customers and a surprising 14.3% of its business customers made or received no toll calls during the one month study period and thus generated no CCL revenue at all (id.). These customers, in a very real sense, were getting a partially free ride at the expense of customers with average and above-amounts of toll usage.

Although the NPRM asks for comments on several alternative means of common line cost recovery, it fails to mention the most obvious solution: lifting the cap on the SLC and recovering all common line costs assigned to the interstate jurisdiction directly from the cost causer -- the end user. There can be no serious debate on the fact that the end user is the cost causer for the loop. The loop is necessary to connect the end user to the network, regardless of whether or what kind of calls the user places or receives. Even if the user does not make any telephone calls at all, he or she has chosen to be connected to the network so as to be in a position to receive calls, and should be expected to pay (except in high cost areas or low income situations that should be covered by universal service support) the cost associated with the decision to connect to the network.

Indeed, the same reasons the Commission gave in ¶¶64-65 for proposing to increase the cap on the SLC for second and additional residential lines and for all lines in the case of multiline business customers apply with equal force to raising the SLC cap on single line residential and business customers: many of those customers may not make a sufficient number of toll calls to recover the interstate loop costs assigned through the separations process, and in any event recovery of their loop costs through the CCLC increases rates for long distance service and discourages demand for such services. Obviously, as discussed above, continuation of the usage-based CCLC is incompatible with economics and incompatible with creating an environment for competition in the local market.

Sprint understands that what would appear, superficially, to be an FCC-mandated increase in customers' local phone bills may not be popular in some quarters. However, in view of the elasticity characteristics of local service, discussed in Section I above, it is highly unlikely to have a significant effect on subscribership. Recovery of all interstate-allocated loop costs from the subscriber, together with non-traffic-sensitive switching costs discussed in Subsection C below, would increase the nationwide average Subscriber Charge for all price cap LECs by only $2.77. See Exhibit 4. If recovered uniformly from all subscribers, this would only be a $3.33 increase for residential users and single-line businesses, and barely above the existing multi-line business cap. Since toll charges continue to fall faster than reductions in access costs,[8] most consumers will see little change in their total communications bills in any event. In addition, universal service reform should provide a safety net for those who need support in order to remain connected to the network.

[8] See Lande, supra, at 9.

In any event, direct recovery of common line costs from the consumer may be the only method of cost recovery that is reconcilable with §254 of the Act. If the refusal to lift the cap on the SLC is motivated by concerns over the resulting affordability of local telephone service, then the CCLC would manifestly be the very type of implicit subsidy, collected in a competitively biased fashion, that is prohibited by §254 of the Act. Recovering universal service support from a charge levied only on IXCs violates the requirement, in §§254(b)(4) and 254(d), that all providers of telecommunications services make equitable and non-discriminatory contributions to universal service support. And, since there is no direct relationship between the carrier common line charge generated by one ILEC customer and the universal service support that that customer (or any other particular customer) of the ILEC is entitled to, this method of support is irreconcilable with the requirement in §254(d) that such support be "specific" and "predictable" and with the requirement in §254(e) that such support be "explicit" and that it be used "only for the provision...of facilities and services for which the support is intended." Recovering the entire interstate-allocated loop cost from the end user, through an increase in the subscriber charge, would avoid the legal pitfalls of the CCLC.

None of the alternatives mentioned in the NPRM is superior to Sprint's proposal. The bulk billing proposal, described in ¶61 (through which IXCs would be assessed a charge based upon their percentage share of interstate minutes of use or revenues), is hardly better than an MOU charge. Like the MOU charge, it is based upon a factor (minutes or revenues) that has no relationship to cost causation. And in one respect, bulk billing might even be worse than an MOU charge. If the basis for assessing the charge is minute data or revenue data from a past period (e.g., the preceding calendar year), the bulk-billed charge would penalize carriers

that are losing market share (since their bulk-billed amount would be based on the volumes of the previous period when their market share was higher than current levels) and would give a windfall to carriers whose market shares are growing very rapidly -- particularly new entrants into the long distance market that start off with a market share of zero. Furthermore, bulk billing may be very difficult to administer fairly. If nationwide market shares of either minutes or revenues were used, IXCs carrying relatively little traffic to or from one region of the country could be unfairly "taxed" by the LECs in that region; conversely, IXCs whose traffic is concentrated in one particular region would pay the lowest access charges where they have the greatest concentration of customers. These anomalous effects, together with the fact that market share of either minutes of use or revenues is irrelevant to the causation of the costs in question, more than suffice to warrant its rejection as a viable alternative. Finally, retaining the CCLC but recovering it in this fashion would violate §254 for the reasons discussed above.

Likewise, recovering loop costs through charges based on the number of trunk ports (see ¶61) is not based on cost causation. This method, also, would conflict with §254.

The other proposal on which the Commission sought comment (¶60) would allow the LECs to recover carrier common line costs through a flat, per-line charge paid by IXCs. This alternative is far preferable to the status quo or the other alternatives mentioned in the NPRM. It assesses loop costs on a cost-causative basis (i.e., per loop, rather than per minute, per dollar of revenue or per trunk port), even though it assesses the wrong party (the IXC) instead of the cost causer (the end user). And by assessing costs on a cost-causative basis, it eliminates (but only with respect to this one element of access charges) some of the unfair

advantage the RBOCs would have if they were allowed to enter the market before cost-based access charges are implemented, because they would be assessed for interstate loop costs on the same cost-causative basis as competing IXCs. With an MOU-based CCLC, if a non-RBOC IXC generates additional traffic, it must pay .8 cents per minute to the RBOC on each end. By contrast, if the RBOC stimulated such traffic, it would have a .8 cents per minute advantage over the IXC on the originating end since its loop costs are fixed, and if the call also terminates in-region, it would have a 1.6 cents per minute advantage over the IXC. Thus, with a per-minute CCLC, the RBOC can retain substantially more of the incremental revenues than the IXC can. Recovery of the CCLC on a per-loop basis eliminates this RBOC advantage, unless the RBOC promotional activities stimulate the addition of new loops, in which case the RBOC's incremental cost of providing the additional loop may be less than the loop revenues it receives from local rates and CCLCs.

While, for the reasons discussed above, recovery of the CCLC on a per-loop basis is far superior to the status quo or to other recovery methods discussed in the NPRM, it still suffers from several deficiencies. First, if loop costs are not to be paid in full by the cost causer -- the end user customer -- IXCs should not be singled out for subsidization of the local loop. This is unfair to IXCs, vis-à-vis the other entities that the end user selects for communications or communications-related services (such as intraLATA toll carriers, local service providers, wireless carriers, and other entities such as information service providers and cable television companies), and it also constitutes what amounts to a continuing subsidy of universal service through an implicit, rather than an explicit mechanism, in violation of

§254 of the Act, since IXCs would be paying a per-loop charge for all customers regardless of whether they qualify for universal service support.

Second, assessing loop costs on IXCs on a per-line basis would inevitably drive IXCs to two-part tariffs, in which they would assess each customer a flat monthly charge (i..e., a SLC) in addition to toll charges for each call the customers make. If an IXC did not choose to price in this fashion, its usage rates could be undercut by usage rates of carriers that rely on 10XXX dial-around traffic for their business, and who would not be assessed any carrier common line charges. Its usage rates could also be undercut by IXCs that institute two-part tariffs, thus putting its larger-volume customers (for whom the savings from lower usage rates would outweigh the fixed monthly charge) at risk. The competitive process would quickly force all carriers with a presubscribed customer base to respond by lowering their usage charges and instituting a flat monthly charge.

Thus, assessing charges on IXCs on a per-line basis would have the same economic effect to the end-user as an increase in the SLC levied by its local carrier, but would inevitably engender confusion on the part of long distance customers, particularly those that receive a bill from their presubscribed long distance carrier during periods when they make no long distance calls over that carrier at all. The cost of handling customer inquiries, complaints and disputes (including, perhaps, an increase in past due payments and collection costs) is far greater than it would likely be if the higher SLC were levied directly by the subscriber's local carrier. Furthermore, LECs would have to modify their own billing systems in order to assess the carrier common line charge directly on end-users when the end-users do not have a presubscribed IXC.

In ¶65, the Commission proposes to increase the cap on the SLC for second and additional lines for residential customers and for all lines for multi-line business customers to the full per-line loops costs assigned to the interstate jurisdiction. Although the Commission intended this to be a step in the right direction, it would do little to solve the problem of uneconomic recovery of loop costs and may be impossible to administer. For the Sprint LECs, uncapping the multiline business SLC would reduce the CCL revenue requirement by a mere 3.19%, and removing the cap on additional residential lines would reduce the CCLC by only 8.01%. See Exhibit 5. At the same time, this proposal, as applied to additional residential lines, could be so difficult to administer and enforce that it would not provide nearly as large a reduction in the CCLC as the estimate presented above. Residential customers who have multiple lines could easily evade the additional charges by having each line billed to a different member of the family, for example. The more direct approach of cost-based SLCs on all lines and universal service support as a safety net is by far the better solution.

Sprint agrees with the suggestion, in ¶67, that geographically averaged SLCs constitute an implicit subsidy of universal service that is inconsistent with §254(e) and that as a result, LECs should be required to deaverage SLCs. Geographically averaged SLCs in effect impose a hidden tax on customers whose loop costs are below average in order to maintain below-cost SLC rates for customers living in high cost areas. End users will ultimately have to foot the bill for universal service, but the bill should be assessed in an explicit and non-discriminatory fashion.

The final issues in this section of the NPRM on which comment is sought (¶¶68-70) concern how SLCs should be assessed on services involving derived channels, such as ISDN. Sprint supports a cost-based SLC for ISDN service, based on the number of facilities, not the number of channels that can be derived from those facilities.

C. Local Switching (¶¶71-79)

Sprint supports a revision in the structure of the local switching element of access to make it more related to cost-causation. The Commission correctly recognizes (¶72) that a substantial amount of local switching costs are non-traffic-sensitive. Those costs -- to the extent they are line-side-related, should be recovered directly from the end-user by the LEC, just like the loop costs discussed above.[9] Sprint estimates, based on a TELRIC cost study of its New Jersey operations (summarized in Exhibit 6), that approximately one-third of local switching costs are non-traffic-sensitive.[10] Assuming those data are representative for price cap LECs as a whole, recovering those costs directly from end users would add only $.80 per month to the end user's bill, but would save IXCs $1.365 billion annually in switching costs that are wholly unrelated to the traffic they carry,[11] and would reduce the ILECs' exposure to the loss of higher-volume toll users that would otherwise occur if these costs were recovered as they are today.

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[9] In fact, as suggested previously, the "Subscriber Line Charge" should be renamed "Subscriber Charge" in order to more appropriately reflect recovery of all non-traffic-sensitive costs from the subscriber.

[10] The weighted average NTS cost (weighted by the number of lines connected to each switch) for the five switches encompassed in that study is 33.72%.

[11] See Exhibit 4.

With respect to traffic-sensitive charges, the Commission is correct in stating (¶75) that there are some call set-up costs that render the cost of handling the first minute of the call higher than the cost of subsequent minutes. However, Sprint believes that the set-up costs are too small to warrant the establishment of a separate call set-up element.[12] Instituting a separate element would force ILECs to go to the time and expense of establishing systems to measure call set-up on a carrier-specific basis and to administer the billing of a separate rate element. If the set-up costs were of major significance, it might be appropriate to undertake this expense, but given the small amount of the set-up costs involved, Sprint does not believe this refinement is worth the added administrative costs. It may also be noted that although uneconomic recovery of other types of costs -- such as recovering loop costs through a usage-based CCLC assessed on switching minutes -- can create a very real possibility of encouraging uneconomic bypass of the ILECs' networks and inefficient investment by other carriers, this is not the case with call setup: no carrier can use the ILEC's local switch for setting up a call unless it also uses the ILEC switch for the entire duration of the call. Thus, in this case the departure from a "perfect" rate structure will not lead to any serious real-world consequences.

The Commission also requests comment (¶¶77-78) on whether ILECs should be directed or permitted to develop peak and off-peak pricing for shared local switching facilities. While peak period pricing is theoretically correct, since it is the peak usage that causes capacity-related costs to be incurred, it is impractical to implement. Peak periods vary by end office and it would be inordinately complex for IXCs to reflect these variances in toll charges to end users (and if IXCs did not reflect these differences in end user rates, the economic

[12] As shown in Exhibit 7, based on TELRIC studies of several Sprint switches, these costs account for only 2.7% to 5.9% of the total usage-sensitive switching costs for a typical call.